

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Harbor Beach District Library</b>	County <b>Huron</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>8/23/05</b>	Date Accountant Report Submitted to State: <b>11/16/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Nietzke &amp; Faupel, P.C.</b>			
Street Address <b>7274 Hartley Street</b>	City <b>Pigeon</b>	State <b>MI</b>	ZIP <b>48755</b>
Accountant Signature <i>Brian Hagedorn, CPA</i>		Date <b>11/16/05</b>	

**HARBOR BEACH AREA  
DISTRICT LIBRARY  
HARBOR BEACH, MICHIGAN**

**FINANCIAL REPORT  
JUNE 30, 2005**

# **HARBOR BEACH AREA DISTRICT LIBRARY**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Harbor Beach Area District Library  
Harbor Beach, Michigan 48441

We have audited the accompanying financial statements of the governmental activities and each major fund of the Harbor Beach Area District Library as of and for the year ended June 30, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Harbor Beach Area District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Harbor Beach Area District Library, as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules information on pages ii through vi and 13 through 15, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Nietzke & Faupel, PC*  
NIETZKE & FAUPEL, P.C.  
Pigeon, Michigan

August 23, 2005

## Management's Discussion and Analysis

This discussion and analysis of the Harbor Beach Area District Library's financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the Library's financial statements.

### Using this Annual Report

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library:

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. The second column includes information on the Library's Special Revenue Fund. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

### **Condensed Financial Information**

The table below shows key financial information in a condensed format between the current year and the prior year:

<b>Assets</b>	<b>2004-05</b>	<b>2003-04</b>
Cash & equivalents	\$ 447,767	\$ 485,882
Accounts receivable	3,092	2,171
Reserved & restricted cash assets	211,571	192,219
Capital assets	<u>635,857</u>	<u>538,481</u>
<b>Total Assets</b>	<b><u>1,298,287</u></b>	<b><u>1,218,753</u></b>
<b>Liabilities</b>		
Long term liabilities	-	-
Other liabilities	<u>43,471</u>	<u>35,651</u>
<b>Total Liabilities</b>	<b><u>43,471</u></b>	<b><u>35,651</u></b>
<b>Net Assets</b>		
Invested in capital assets	635,857	538,481
Restricted for donor-restricted purpose	5,815	5,655
Restricted funds	205,756	186,564
Unrestricted Funds	<u>407,388</u>	<u>452,402</u>
<b>Total Net Assets</b>	<b><u>\$ 1,254,816</u></b>	<b><u>\$1,183,102</u></b>
<b>Revenue</b>		
Program Revenue:		
Charges for services – Theatre	\$ 82,451	\$ 74,668
General Revenue:		
Property Taxes	327,750	316,048
Fines	26,839	27,122
Interest	11,191	10,553
Other revenue	<u>31,402</u>	<u>26,711</u>
<b>Total Revenue</b>	<b><u>479,633</u></b>	<b><u>455,102</u></b>
Program expenses:		
Library	287,588	263,861
Theatre	75,303	83,562
Depreciation	<u>45,028</u>	<u>39,246</u>
<b>Total expenses</b>	<b><u>407,919</u></b>	<b><u>386,669</u></b>
<b>Change in Net Assets</b>	<b>71,714</b>	<b>68,443</b>
<b>Net assets – Beginning of the year</b>	<b>1,183,102</b>	<b>1,114,669</b>
<b>Net assets – end of the year</b>	<b><u>\$ 1,254,816</u></b>	<b><u>\$1,183,102</u></b>

### **The Library as a Whole**

The Library's main source of revenue is through a perpetual millage of 1.6000 mills approved in September of 1994. The millage has since been reduced by MCL 211.34d "Headlee" to 1.5781 mills. Even with the Headlee reduction, the Library's revenue from property tax collection has increased due to an increase in district property values. Property taxes represent 68% of the Library's total revenues.

Salaries and fringe benefits are a significant expense of the Library, representing 53% of the Library's total expenses.

The Library's expenditures exceeded the revenue this year by \$25,662. Part of the expenditures were investments in the Library's book collection (\$16,994) and capital outlay (\$125,410). The plaza improvements on the south side of the library made up 85% of the capital outlay. The excess expenditures over revenue and capital improvements were offset by depreciation of \$45,028 to give the Library an increase of \$71,714 in net assets.

### **The Library's Funds**

The Library has undesignated, reserved and restricted funds. The Library uses undesignated funds to pay regular operating expenses and other expenses as approved by the Board.

The reserved funds have been designated for specific purposes. Technology improvements, unemployment funding, sick pay, memorial & special projects and capital improvements are current designations for reserved funds. Money is set aside in the capital improvement funds for long range needs, such as: replacing the heating/cooling system, roof replacement, window replacement, and other major maintenance or improvement needs.

The Library also has the Willett Trust Fund. The donor restricted the use of the interest revenue of the fund for the purpose of purchasing new children's books. The principal in the Willett Trust Fund cannot be spent.

### **Special Revenue Fund (Theatre)**

The Special Revenue Fund (Theatre) had gross income of \$86,277 for the fiscal year 2004-2005. It also had expenses for the same fiscal period totaling \$80,303. This resulted in an operating income of \$5,974 compared to an operating loss of \$5,743 in the previous year.

### **Budgetary Highlights**

As required by State of Michigan law, the Library amended the budget to take into account events during the year. The most significant amendments occurred in Sanilac Co. Millage, Capital Outlay, Fuel, Internet Access, Salaries, Insurance Benefits and Audio Materials-Books.

Total revenues were 12% higher than the budgeted amount. A major reason for this was higher than anticipated property tax revenue. The Library bases the budget for property tax revenue on information it receives from the Equalization Department. The Equalization Department does not include industrial facilities information in the figures that are forwarded to the Library. Because the Library did not have the information necessary to accurately predict revenue from that source there was no amount budgeted. The industrial facilities property tax generated \$27,010 in revenue.

The Library offered a Concert Series during the 2004-05 fiscal year. The Series was very successful and will be offered again in the coming fiscal year.

The Library completed a major capital outlay project creating an outdoor plaza on the south side of the Library. Significant budget adjustments were made to the capital outlay expenditures in the budget because of this project. The funds for this project were taken from reserved funds set aside in prior years for major capital improvements. The project made up \$106,286 of the funds spent on capital outlay in 2004-05.

The Library has also been working with R.C. Hendrick & Son Inc. and Wigen, Tinknell, Meyer and Associates to design plans for a renovation of the Community House. Architect fees totaling \$3,837 were paid from 2004-2005 budget money.

Management made changes in the operations of the Special Revenue Fund (Theatre) to increase profitability during the 2004-05 fiscal year. The Theatre decreased "winter" operating hours and increased some concession prices. There was also an increase in attendance at the movies throughout the year. Attendance may have increased because of better movie selections or improved comfort at the theatre since the new seats were installed. These changes created an income of \$5,974 in 2004-05 compared to a loss of \$5,743 the previous year. This is an increase of \$11,717 from 2003-04 to 2004-05.

### **Capital Asset and Debt Administration**

As of June 30, 2005, the Library had \$1,254,816 invested in a broad range of capital assets, including cash deposits, building, collections, and equipment. This is an increase in total net assets of 6% during the current fiscal year.

In the 2004-2005 fiscal year the Library completed the outdoor plaza project on the south side of the building. A new cabinet was purchased to accommodate the DVD collection and give the staff improved filing and storage space behind the circulation desk. The Library also purchased a new computer server, circulation desk computer and patron computer.

The Library does not have any long-term debts.

### **Next Year's Budgets and Millage Rates**

The Library's millage rate will not have a Headlee reduction for the taxes due December 1, 2005 and the property tax value increased by 4%. This will result in an increase in tax revenue for the next fiscal year.



The Board, based on recommendation from the advisory Steering Committee, is continuing to move forward with plans for a building renovation. The Board expects to begin publicity, grant seeking and fundraising for the proposed project in the next fiscal year. The goal for the actual renovation work is three to five years.

Next year's budget has an added line item for Adult Programming. The Library would like to offer adults some special programs to meet specific needs such as an adult book club.

The Library is planning to upgrade computer equipment again in the 2005-2006 budget year. Advancements in technology make it necessary for the Library to upgrade its computer equipment on a regular basis in order to provide better services for the patrons.

### **Contacting the Library's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the director, Vicki Mazure, at (989) 479-3417.

## **BASIC FINANCIAL STATEMENTS**

# HARBOR BEACH AREA DISTRICT LIBRARY

## GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS JUNE 30, 2005

<u>ASSETS</u>	<u>MODIFIED ACCRUAL BASIS</u>			<u>STATEMENT</u>
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>ADJUSTMENTS</u>	<u>OF NET ASSETS</u>
Cash and deposits	\$ 95,782	\$36,448		\$ 132,230
Investments	315,537			315,537
Accounts receivable	3,092			3,092
Due from other fund		216	\$ (216)	
Restricted asset:				
Cash	211,571			211,571
Capital assets - net			635,857	635,857
<b>TOTAL ASSETS</b>	<u>\$625,982</u>	<u>\$36,664</u>	<u>\$ 635,641</u>	<u>\$ 1,298,287</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 33,810	\$ 2,490		\$ 36,300
Accrued payroll taxes	3,704	756		4,460
Accrued wages	2,264	447		2,711
Due to other fund	216		\$ (216)	
<b>TOTAL LIABILITIES</b>	<u>39,994</u>	<u>3,693</u>	<u>(216)</u>	<u>43,471</u>
<b>FUND BALANCE/NET ASSETS:</b>				
Fund balance:				
Unreserved, undesignated	374,417	32,971	(407,388)	-
Reserved	211,571		(211,571)	-
<b>TOTAL FUND EQUITY</b>	<u>585,988</u>	<u>32,971</u>	<u>(618,959)</u>	<u>-</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$625,982</u>	<u>\$36,664</u>		
<b>Net assets:</b>				
Invested in capital assets			635,857	635,857
Restricted			211,571	211,571
Unrestricted			407,388	407,388
<b>TOTAL NET ASSETS</b>			<u>\$ 1,254,816</u>	<u>\$ 1,254,816</u>

# HARBOR BEACH AREA DISTRICT LIBRARY

## STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

	<u>MODIFIED ACCRUAL BASIS</u>			<u>STATEMENT OF</u>
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>ADJUSTMENTS</u>	<u>ACTIVITIES</u>
<b>REVENUES:</b>				
Taxes	\$327,750			\$ 327,750
State grants	5,462			5,462
Charges for services		\$82,451		82,451
Fines and forfeits	26,839			26,839
Rentals	11,036	355		11,391
Interest	10,676	514		11,191
Other revenue	16,594	2,957	\$ (5,000)	14,551
<b>TOTAL REVENUES</b>	<u>398,356</u>	<u>86,277</u>	<u>(5,000)</u>	<u>479,633</u>
<b>EXPENDITURES:</b>				
Recreation and cultural:				
Salaries and wages	136,321	25,848		162,169
Employer FICA	10,148	1,977		12,125
Retirement	10,297	1,956		12,252
Employee benefits	28,330			28,330
Insurance - Workers Comp.	2,307			2,307
Unemployment	473			473
Books	17,578		(16,994)	584
Magazines & periodicals	2,773			2,773
Video cassettes	8,749			8,749
Computer software	1,161			1,161
White Pine contract	2,755			2,755
HB historical video	2			2
Copier lease	1,160			1,160
Furniture and equipment	1,447			1,447
Film rental		21,268		21,268
Concession purchases		14,036		14,036
Pickup & delivery		1,886		1,886
Supplies	4,144	504		4,649
Utilities	24,162	648		24,811
Water & sewer	615			615
Internet access	1,506			1,506
Telephone	3,469			3,469
Repairs & maintenance	16,177	598		16,776
Custodial service		5,000	(5,000)	

# HARBOR BEACH AREA DISTRICT LIBRARY

## STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

	<u>MODIFIED ACCRUAL BASIS</u>			<u>STATEMENT OF ACTIVITIES</u>
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>ADJUSTMENTS</u>	
(CONTINUED)				
Insurance	13,838	200		14,038
Advertising	1,359	6,205		7,565
Audit fees	3,175			3,175
Meals and mileage	2,441	176		2,616
Workshops	1,345			1,345
Friends of the Library	458			458
Concert series	3,606			3,606
Summer reading program	1,995			1,995
Story hour	466			466
Depreciation			45,028	45,028
Capital outlay	<u>127,734</u>		<u>(125,410)</u>	<u>2,324</u>
<b>TOTAL EXPENDITURES</b>	<b>429,992</b>	<b>80,303</b>	<b>(102,376)</b>	<b>407,920</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u><b>(31,636)</b></u>	<u><b>5,974</b></u>	<u><b>97,376</b></u>	<u><b>71,714</b></u>
<b>FUND BALANCE/NET ASSETS - JULY 1</b>	<b>617,624</b>	<b>26,997</b>	<b>538,481</b>	<b>1,183,102</b>
<b>FUND BALANCE/NET ASSETS - JUNE 30</b>	<u><b>\$585,988</b></u>	<u><b>\$32,971</b></u>	<u><b>\$ 635,857</b></u>	<u><b>\$ 1,254,816</b></u>

## **HARBOR BEACH AREA DISTRICT LIBRARY**

### **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2005**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Harbor Beach Area District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Harbor Beach Area District Library:

#### **Reporting Entity:**

In accordance with the provisions of the Governmental Accounting Standards Board Statement No. 14, the definition of the reporting entity is based primarily on the notion of financial accountability. The District Library is a primary government and is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. These types of organizations are deemed component units.

Based on the provisions of GASB 14, there are no organizations that are deemed to be component units of Harbor Beach Area District Library.

#### **Basis of Presentation:**

The accounts of the District Library are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues, and expenditures or expenses as appropriate.

#### **Governmental Funds:**

The District Library reports the following major governmental funds:

**General Fund** – The General Fund accounts for the general operating expenditures of the District Library not recorded elsewhere. Revenues are derived primarily from property taxes, State distributions and penal fines.

**Special Revenue Fund** – The Community Theater Fund is used to account for specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action.

# **HARBOR BEACH AREA DISTRICT LIBRARY**

## **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2005**

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

#### **Modified Accrual and Full Accrual Data:**

The Library has two funds, the General Fund, which is the Library's primary operating fund, and the Special Revenue Fund, which is the Theater's operating fund.

Both the General Fund and the Special Revenue Fund are budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

In addition to presenting information for the General and Special Revenue funds, the basic financial statements combine all fund activity and present information for the Library as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

#### **Budgets:**

Formal budgetary integration is employed as a management control device during the year for the Governmental Fund types. The budgets are adopted on a basis consistent with generally accepted accounting principles.

The Board of Trustees prepares the budgets on a line item basis. Any revisions that alter any line item appropriation must be approved by the Board of Trustees. Therefore, the level of budgetary responsibility is at the line item level.

Unused appropriations lapse at the end of the year.

#### **Capital Assets:**

Generally, capital assets are defined by the Library as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Library books, CDs, and audio and visual tapes which comprise the Library's collection are recorded as assets using various estimating techniques. Because of their nature and relevance to the Library's operations, they are capitalized despite their individually small cost.

# **HARBOR BEACH AREA DISTRICT LIBRARY**

## **NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2005**

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

#### **Capital Assets: (Continued)**

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building and building improvements	20-40 years
Furniture and equipment	5-10 years
Library books	5 years

#### **Fund Equity:**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### **Property Taxes:**

During 1994, the voters of the Harbor Beach Area District Library approved a millage of 1.6 mills on all real and personal property. This levy is collected by the Townships and City within the Library's boundaries based on the following schedule: Properties are assessed as of December 31, and the related property taxes become a lien on December 1 of the following year. These taxes have a final collection date of February 28 before they are added to the County's delinquent tax rolls. The delinquent real property taxes are purchased by the County's Revolving Tax Fund. Management's policy of revenue recognition for property taxes is to record the revenue in the year levied.

#### **Use of Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### **NOTE 2 – BUDGET COMPLIANCE:**

P.A. 621 of 1978, section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the required supplemental information, the District Library's actual and budgeted expenditures have been shown on a line item basis. The approved budgets of the District Library have also been adopted to the line item level.



## **HARBOR BEACH AREA DISTRICT LIBRARY**

### **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2005**

#### **NOTE 2 – BUDGET COMPLIANCE: (CONTINUED)**

During the year ended June 30, 2005, the District Library did not incur any expenditures which were in excess of the amounts appropriated.

#### **NOTE 3 – CASH AND INVESTMENTS:**

Deposits are carried at cost. Deposits of the District Library are at various banks in the name of the Treasurer as an officer of the District Library. In accordance with Michigan Compiled Laws, the District Library is authorized to deposit and invest in banks, savings and loan associations or credit unions having a principal office or branch office in this state; obligations of the U.S. Treasury, the principal and interest of which are fully guaranteed by the United States; certificates of deposit of a state or national bank or state or federal savings and loan association; commercial paper rated prime and maturing within 270 days of purchase; securities issued or guaranteed by agencies or instrumentality's of the U.S. government; U.S. government or federal agency obligation repurchase agreements; bankers' acceptances issued by a bank which is a member of the F.D.I.C.; mutual funds composed of investment vehicles that are legal for direct investment by a district library; investment pools composed entirely of instruments that are legal for direct investment by a district library.

The District Library's deposit and investment policies are as follows:

**Interest rate risk.** In accordance with its investment policy, the District Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

**Concentration of credit risk.** The District Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of June 30, 2005, \$349,450 of the Library's bank balance of \$673,329 was exposed to custodial credit risk because it was uninsured and uncollateralized.

## HARBOR BEACH AREA DISTRICT LIBRARY

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2005

#### **NOTE 3 – CASH AND INVESTMENTS: (Continued)**

**Custodial credit risk – investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District Library will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the District Library will do business.

**Foreign currency risk.** The District Library is not authorized to invest in investments which have this type of risk.

As of June 30, 2005, the District had the following investments.

<b><u>INVESTMENT TYPE</u></b>	<b><u>FAIR VALUE</u></b>	<b><u>WEIGHTED AVERAGE MATURITY (YEARS)</u></b>	<b><u>%</u></b>
Pooled investment funds:			
Comerica Bank-Governmental cash Investment fund J	\$315,537	0.0027	100%
Portfolio weighted average maturity		0.0027	

1 day maturity equals 0.0027, one year equals 1.00

#### **NOTE 4 – CAPITAL ASSETS:**

Capital asset activity of the Library is as follows:

	<b><u>Balance July 1, 2004</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Balance June 30, 2005</u></b>
Land improvements	\$ 33,086	\$106,286		\$139,372
Building improvements	451,256	5,035		456,291
Equipment	121,111	14,089		135,200
Collections	93,997	16,994		110,991
	699,450	142,404		841,854
Accumulated depreciation	160,969	45,028		205,997
Net capital assets	<u>\$538,481</u>	<u>\$ 97,376</u>		<u>\$635,857</u>

## **HARBOR BEACH AREA DISTRICT LIBRARY**

### **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2005**

#### **NOTE 5 – FUND BALANCE, RESERVED:**

Various certificates of deposit have been designated for specific purposes. The following reservations have been made:

Unemployment Fund	\$ 12,528
Willet Trust Fund	5,815
Technology Fund	22,506
Memorial and Special Projects	12,157
Sick Pay Fund	20,000
Capital Outlay Funds	<u>138,565</u>
<b>TOTAL FUND BALANCE RESERVATIONS</b>	<b><u>\$211,571</u></b>

#### **NOTE 6 – PENSION PLANS:**

##### **Defined Contribution Pension Plan:**

The District Library provides pension benefits for all its employees through a defined contribution SEP plan except as described below. Employees over the age of 21 are eligible to participate 90 days after their date of employment. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

The plan requires the District Library to contribute an amount equal to 8% of the employee's base salary each quarter, but does not require or allow employee contributions. The District Library's contributions for each employee and the interest allocated to the employees' accounts are fully vested at all times.

The District Library's total payroll for the year ended June 30, 2005, was \$162,169. The District Library's contributions were calculated using the base salary amount of \$160,440 and the District Library made the required contributions amounting to \$12,994.

#### **NOTE 7 – LEASE**

The District Library was leasing a copier under a noncancelable operating lease which expired May 2003. A new three year lease was signed. The following is a schedule by years of future minimum rentals under the lease at June 30, 2005:

<b>Year Ending</b>	
<b><u>June 30:</u></b>	
2006	\$974

This lease contains an option whereby the District Library can purchase the copier at fair value at the end of the lease term. Lease expense under this noncancelable lease was \$1,160 for 2005.

#### **NOTE 8 – RISK MANAGEMENT:**

Property, liability and worker's compensation insurance and health and disability benefits are contracted by the District Library with commercial insurance providers. For the year ended June 30, 2005, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

## HARBOR BEACH AREA DISTRICT LIBRARY

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2005

#### NOTE 9 – RECONCILIATION OF BASIC FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS:

Total fund balance and the net change in fund balance of the Library's funds differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the balance sheet and statement of revenue, expenditures, and changes in Fund Balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance – Modified accrual basis	\$618,959
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	<u>635,857</u>
Net Assets – Full accrual basis	<u>\$1,254,816</u>
 Net change in Fund Balance – Modified accrual basis	 \$(25,662)
Amounts reported in the statement of activities are different because:	
Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Library books and collection materials	16,994
Capital outlay	125,410
Depreciation	<u>(45,028)</u>
Change in Net Assets – Full accrual basis	<u>\$71,714</u>

**REQUIRED SUPPLEMENTAL INFORMATION**

# HARBOR BEACH AREA DISTRICT LIBRARY

## BUDGETARY COMPARISON SCHEDULE

### GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
<b>REVENUE:</b>				
Taxes	\$ 301,196	\$ 298,996	\$ 327,750	\$ 28,754
State grants	4,300	4,300	5,462	1,162
Fines and forfeits	22,000	23,500	26,839	3,339
Rentals	5,500	9,700	11,036	1,336
Interest	8,000	9,000	10,676	1,676
Other revenue	6,350	9,000	16,594	7,594
<b>TOTAL REVENUE</b>	<u>347,346</u>	<u>354,496</u>	<u>398,356</u>	<u>43,860</u>
<b>EXPENDITURES:</b>				
Recreation & Cultural:				
Salaries & wages	124,950	142,450	136,321	6,129
Employer FICA	9,550	10,550	10,148	402
Retirement	10,000	10,400	10,297	103
Employee benefits	47,400	28,850	28,330	520
Insurance - Workers Comp.	2,500	2,500	2,307	193
Unemployment	600	600	473	127
Books	21,500	20,600	17,578	3,022
Magazines & periodicals	3,000	3,000	2,773	227
Video cassettes	7,000	10,200	8,749	1,451
Computer software	1,000	1,164	1,161	3
White Pine contract	3,000	3,000	2,755	245
HB historical video		6	2	4
Copier lease	1,000	1,200	1,160	40
Furniture and equipment	1,500	1,500	1,447	53
Supplies	3,600	4,400	4,144	256
Utilities	24,000	26,000	24,162	1,838
Water & sewer	600	625	615	10
Internet access	4,000	1,525	1,506	19
Telephone	3,500	3,500	3,469	31
Repairs & maintenance	17,000	18,000	16,177	1,822
Insurance	14,000	14,046	13,838	208
Advertising	1,500	1,500	1,359	141
Elections & legal fees	1,000	1,000	-	1,000
Contingencies	2,246			
Audit fees	2,400	3,175	3,175	

**HARBOR BEACH AREA DISTRICT LIBRARY****BUDGETARY COMPARISON SCHEDULE****GENERAL FUND****FOR THE YEAR ENDED JUNE 30, 2005**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
<b>(CONTINUED)</b>				
Meals & mileage	2,000	2,605	2,441	164
Workshops	1,000	1,750	1,345	405
Friends of the Library		500	458	42
Concert series	5,000	4,500	3,606	894
Summer reading program	1,500	2,000	1,995	5
Story hour	1,000	600	466	134
Capital outlay	<u>30,000</u>	<u>132,750</u>	<u>127,734</u>	<u>5,016</u>
<b>TOTAL EXPENDITURES</b>	<b>347,346</b>	<b>454,496</b>	<b>429,992</b>	<b>24,502</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>-</u>	<u>(100,000)</u>	<u>(31,636)</u>	<u>68,362</u>
<b>FUND BALANCE - JULY 1</b>	<b>617,624</b>	<b>617,624</b>	<b>617,624</b>	
<b>FUND BALANCE - JUNE 30</b>	<u><u>\$ 617,624</u></u>	<u><u>\$ 517,624</u></u>	<u><u>\$ 585,988</u></u>	<u><u>\$ 68,362</u></u>

**HARBOR BEACH AREA DISTRICT LIBRARY****BUDGETARY COMPARISON SCHEDULE****SPECIAL REVENUE FUND****FOR THE YEAR ENDED JUNE 30, 2005**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
<b>REVENUE:</b>				
Charges for services	\$ 76,000	\$ 78,930	\$ 82,451	\$ 3,521
Rentals	500	355	355	
Interest	1,200	500	514	14
Other revenue	900	2,900	2,957	57
<b>TOTAL REVENUE</b>	<u>78,600</u>	<u>82,685</u>	<u>86,277</u>	<u>3,592</u>
<b>EXPENDITURES:</b>				
Recreation & Cultural:				
Salaries & wages	28,400	27,200	25,848	1,352
Employer FICA	2,050	2,100	1,977	123
Retirement	2,150	2,150	1,956	194
Film rental	19,000	21,300	21,268	32
Concession purchases	11,000	14,500	14,036	464
Pickup & delivery	3,000	2,000	1,886	114
Supplies	850	545	504	41
Utilities	600	660	648	12
Repairs & maintenance	1,250	630	598	32
Custodial service	5,000	5,000	5,000	
Insurance	200	200	200	
Advertising	5,100	6,220	6,205	15
Meals & mileage		180	176	4
<b>TOTAL EXPENDITURES</b>	<u>78,600</u>	<u>82,685</u>	<u>80,303</u>	<u>2,382</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>5,974</u>	<u>5,974</u>
<b>FUND BALANCE - JULY 1</b>	26,997	26,997	26,997	
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 26,997</u>	<u>\$ 26,997</u>	<u>\$ 32,971</u>	<u>\$ 5,974</u>